The Monthly Pension Review: December 2024

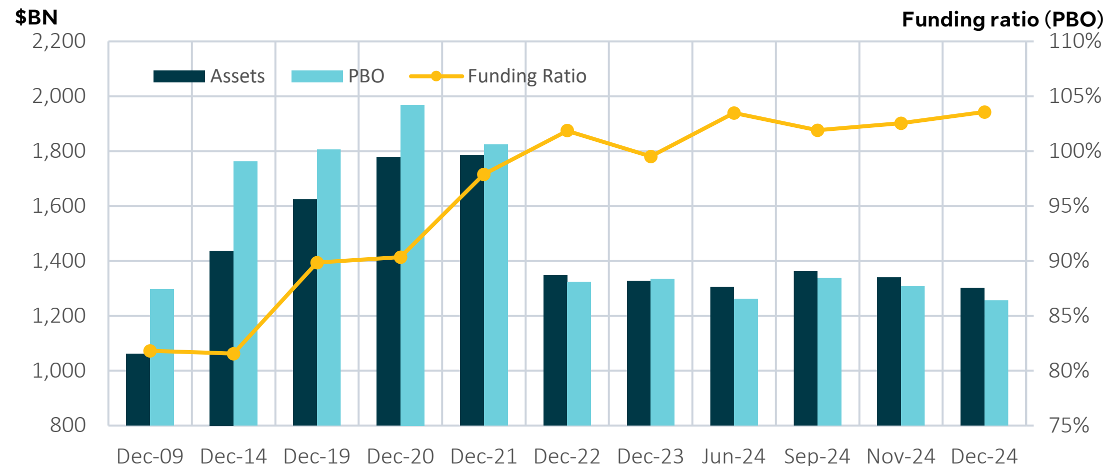
The last year came to a close with the Fed having lowered interest rates multiple times throughout 2024 and the S&P 500 Index up more than 23% for the 12-month period.

December Market Summary

- **Funded status rose by 1.0% in December** – Assets returned -3.8% while liabilities returned -3.9%.[1]
- **The S&P 500 Index fell 2.5% in December** – Despite the strong year-to-date performance, the index struggled at the end of December.
- **The Long Credit Index yield rose 38 basis points (bps) in December**– Long Treasury yields rose 42 bps.

Market Watch	Dec-22	Dec-23	Nov-24	Dec-24
Funded Status (1)	101.9%	99.5%	102.6%	**103.6%**
FTSE Discount Rate	4.95%	4.76%	5.07%	**5.44%**
Long Credit Yield (2)	5.59%	5.22%	5.43%	**5.81%**
US 30Y TSY Yield	3.96%	4.03%	4.36%	**4.78%**
S&P 500	3,840	4,770	**6,032**	5,882

Milliman Pension Funding Index (December 2024)[1]



Current markets suggest favorable conditions for de-risking

- Throughout 2024, the previously inverted yield curve from the end of 2023 normalized as short rates declined due to rate cuts and long bond yields increased.
- This steepening of the yield curve has positioned liability-driven investment (LDI) portfolios for higher net yields, as these portfolios often receive long-term yields while seeking to hedge long-dated liabilities – carry costs for any leveraged exposure would be linked to short rates.

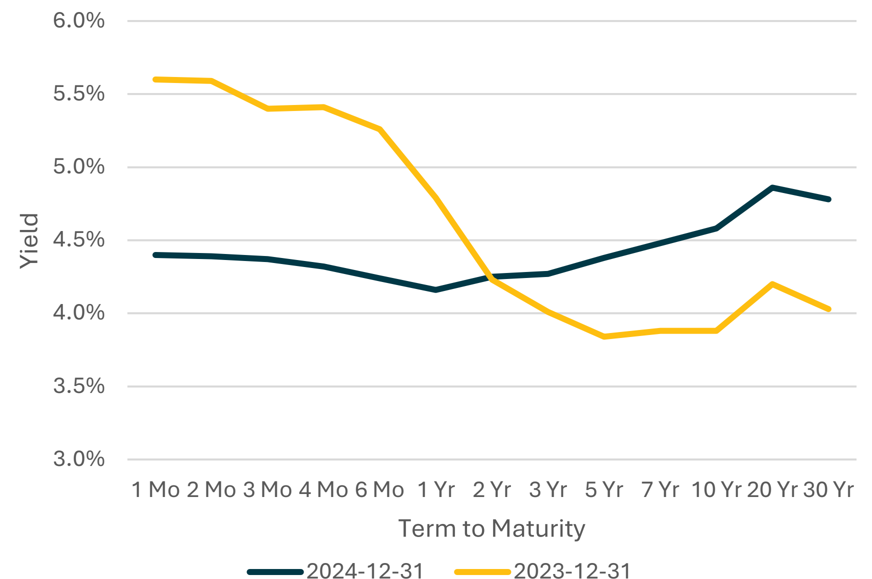
Plan sponsors seek further yield and diversification within fixed income portfolios

- Funded statuses have remained healthy and fixed income allocations have grown in many plan portfolios, resulting in demand for higher yields from fixed income assets and sufficient diversification of credit exposure to mitigate default risks.
- Strategies that utilize investment grade private credit have seen increased interest from many plan sponsors as they seek to meet these objectives.

As equity valuations remain high, plan sponsors look to lower risk alternatives

- As equities appear expensive compared to historical standards, many plan sponsors are considering reallocating from equities into less risky asset classes while aiming to preserve some return potential.
- Real estate equity, non-investment grade private credit and narrowly syndicated credit are examples of asset classes that could potentially fill these needs.

Steepening yield curve positioning LDI portfolios for higher net yields[2]



[1] Data from reference Bloomberg indices. Funded status is in reference to Pension Funding Index of the top 100 US corporate pension plans sourced from Milliman, except for most recent month which is estimated based the return for representative pension plan asset allocation and prior month's liabilities adjusted for duration and change in discount rate. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 Index value source: Bloomberg.
[2] U.S. Department of Treasury, daily treasury par yield curve rates.

SLC-20250109-4142098

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Market chart indices:

- AAA Non-Agency CMBS and A Corporate source: Index data from Bloomberg.

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